

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-05
CEA-01 L-03 H-01 PA-01 PRS-01 /087 W
-----109365 132058Z /45

R 131759Z OCT 77
FM AMEMBASSY MADRID
TO SECSTATE WASHDC 2042
INFO AMEMBASSY LISBON
AMEMBASSY PARIS

C O N F I D E N T I A L SECTION 01 OF 02 MADRID 07552

OECD

E.O. 11652:GDS
TAGS: EFIN, EGEN, EALR, ECRP, SP
SUBJECT: ESTIMATES OF SPANISH CURRENT ACCOUNT DEFICIT

REF: MADRID A-103

1. TWO JUST-PRODUCED SPANISH BALANCE OF PAYMENTS ESTIMATES SHOW A SUBSTANTIALLY REDUCED CURRENT ACCOUNT DEECIT FOR 1977. THE ESTIMATES, GIVEN TO US IN CONFIDENCE, WERE SEPARATELY PREPARED IN SEPTEMBER IN THE COMMERCE MINISTRY AND IN THE BANK OF SPAIN. THE COMMERCE MINISTRY, WHICH ASSEMBLES BOP STATISTICS, FORECASTS A CURRENT ACCOUNT DEFICIT OF 3.4 BILLION DOLLARS THIS YEAR; THE BANK OF SPAIN, WHICH GATHERS MUCH OF THE INPUT DATA, REDDCTS A 3.7 BILLION DOLLAR DEFICIT. LAST YEAR'S CURRENT ACCOUNT DEFICIT IS NOW TALLIED AT 4.294 BILLION DOLLAR

2. THIS IMPROVEMENT OVER LAST YEAR WAS FORESEEN IN THE EMBASSY'S JULY FORECAST (SEE MADRID A.103), WHICH PREDICTED A REDUCED 1977 CURRENT ACCOUNT DEECIT'
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OUR ESTIMATE ATTRIBUTED THE IMMROVEMENT TO THE NARROWING OF THE TRADE DEFICIT WHICH HAS BEEN APPARENT SINCE THE BEGINNING OF THE YEAR AND WHICH WAS EXPECTED TO CONTINUE WITH OR WITHOUT A DEVALUATION OF THE PESETA.

3. THE NEW MINISTRY OF COMMERCE ESTIMATE, WHICH WE WILL FORWARD IN ITS ENTIRETY UNDER COVER OF AN AIRGRAM,

ALSO ATTRIBUTES ALMOST ALL THE IMPROVEMENT TO THE REDUCED TRADE DEFICIT. IN ADDITION SLIGHT GAINS IN NET REVENUES FROM TOURISTS AND FROM TRANSPORTATION SERVICES ARE SHOWN. WE COULD NOT OBTAIN A BREAKDOWN OF THE NEWEST BANK OF SPAIN CURRENT ACCOUNT ESTIMATE, BUT DIRECTOR GENERAL MADRONERO INFORMED AN EMBASSY OFFICER THAT THE BANK ALSO ATTRIBUTES THE IMPROVEMENT TO A LOWER TRADE DEFICIT AND, TO A LESSER DEGREE, TO A MODEST RECOVERY OF TOURIST EARNINGS. MADRONERO NOTED THAT THE CURRENT ACCOUNT DEFICIT WAS STILL A MAJOR CONCERN AND THAT IF SPANISH PRICE INFLATION CANNOT BE BROUGHT UNDER CONTROL NEITHER CAN FUTURE BALANCE OF PAYMENTS DEFICITS.

4. THE DATA BELOW ARE ALL FROM THE COMMERCE MINISTRY ESTIMATE, WHICH WAS PREPARED IN DOLLARS. THERE WAS A 3.18 BILLION-DOLLAR TRADE DEFICIT IN THE FIRST HALF OF THE YEAR, ARISING FROM A 26 PERCENT INCREASE IN EXPORTS AND A 9 PERCENT INCREASE IN IMPORTS. A FULL-YEAR TRADE DEFICIT OF 6.53 BILLION IS ESTIMATED. THIS WOULD BE AN IMPROVEMENT OF 800 MILLION DOLLARS OVER LAST YEAR. IN TERMS OF REAL VALUE, IMPORTS THIS YEAR ARE EXPECTED TO GROW 0.9 PERCENT WHILE EXPORTS GROW 13.4 PERCENT.

5. THE FAVORABLE TRANSFERS BALANCE DETERIORATED IN THE FIRST HALF OF THIS YEAR, TO 412 MILLION DOLLARS FROM 634 MILLION IN THE SAME PERIOD OF LAST YEAR. NEVERTHELESS
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THE COMMERCE MINISTRY EXPECTS THE FULL-YEAR FIGURE TO BE ONLY SLIGHTLY BELOW LAST YEAR (\$1.12 BILLION VERSUS 1.14 BILLION). WE ASSUME THAT THE DEVALUATION WILL SPEED WORKER REMITTANCES TO SPAIN (ALTHOUGH THERE ARE NOW FEWER SPANISH WORKERS ABROAD), AND UNDO OTHER LEADS AND LAGS. THIS MAY ACCOUNT FOR THE LARGE SECOND-HALF TRANSFERS EARNINGS FORESEEN BY THE MINISTRY.

6. THE SERVICES BALANCE, LIKE THE TRANSFERS BALANCE, SHOWED A DETERIORATION IN THE FIRST SIX MONTHS. A NET INFLOW OF 455 MILLION DOLLARS WAS TALLIED, DOWN FROM 656 MILLION IN THE SAME PERIOD LAST YEAR. ALTHOUGH TOURIST REVENUES WERE DOWN 7 PERCENT THE MAIN OUTFLOWS WERE INVESTMENT INCOME (UP 56 PERCENT) AND "OTHER SERVICES" (UP 300 PERCENT). FOR FULL YEAR 1977, HOWEVER, THE SERVICES BALANCE IS EXPECTED TO IMPROVE 109 MILLION DOLLARS TO A 2.90 BILLION DOLLAR NET INFLOW. BREAKING THIS DOWN, NET TOURIST REVENUES ARE EXPECTED TO INCREASE 210 MILLION DOLLARS. A SMALLER OUTFLOW THAN LAST YEAR IS FORESEEN FOR TECHNICAL ASSISTANCE AND ROYALTIES. THE NET OUTFLOW OF INVESTMENT INCOME THIS YEAR IS TO INCREASE 208 MILLION DOLLARS TO A TOTAL 708 MILLION DOLLAR LOSS.

7. THE COMMERCE MINISTRY ALSO MADE A ROUGH PROJECTION OF THE 1978 CURRENT ACCOUNT DEFICIT: 2.613 BILLION DOLLARS OR 800 MILLION DOLLARS LOWER THAN IN ANY OF THE PREVIOUS FOUR YEARS. THIS ANTICIPATED LOWER DEFICIT IS BASED ON THE TRADE DEFICIT NARROWING BY MORE THAN 600 MILLION DOLLARS AND ON NET TOURIST EARNINGS RISING BY 375 MILLION DOLLARS DURING 1978.

8. COMMENT: THESE DATA SHOW UNEQUIVOCAL IMPROVEMENT IN THE 1977 CURRENT ACCOUNT DEFICIT. FOLLOWING THREE YEARS OF VERY BAD AND WORSENING RESULTS, THIS IS GOOD NEWS. AS WE HAVE PREVIOUSLY REPORTED, RESERVES HAVE ALSO RISEN RAPIDLY AND SO HAS LENDER INTEREST IN SPAIN. IN SPITE OF CONFIDENTIAL

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INFO AMEMBASSY LISBON
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C O N F I D E N T I A L SECTION 02 OF 02 MADRID 07552

ALL THIS THE SPANISH BALANCE OF PAYMENTS IS VERY FAR FROM HEALTHY, AND THE PROJECTION OF MAJOR CURRENT ACCOUNT IMPROVEMENTS IN 1978 (AND WE UNDERSTAND IN 1979) IS AT BEST STILL TENTATIVE. STABLER

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